

FDIC State Profile

Fall 2005

Massachusetts

Massachusetts' employment picture continues to recover from the 2001 recession.

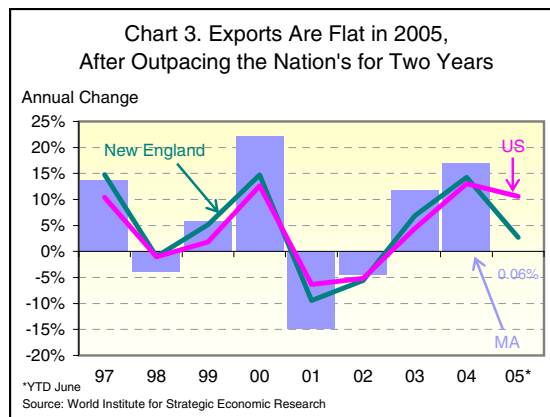
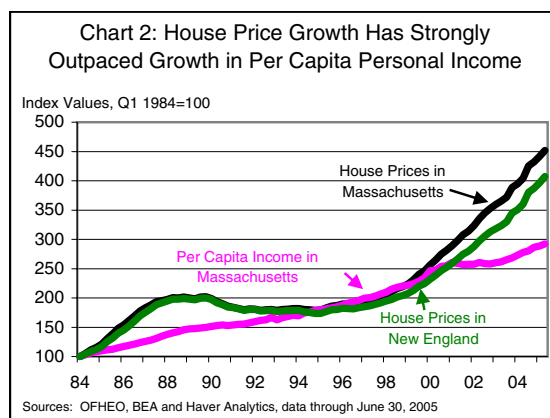
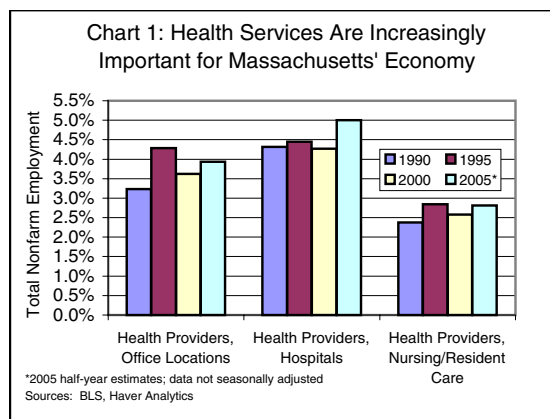
- Massachusetts lost 207,000 jobs during the recession and has a history of slow growth in employment. Job gains since the beginning of 2004, however, have only reversed about one-quarter of these losses.
- Massachusetts' unemployment rate has declined over time. Recently, it has been below 5.0 percent, but above 4.5 percent, and therefore somewhat lower than the national rate, which in August fell to 4.9 percent.
- The announcement that Hanscom Air Force Base is not on the list of recommended closures is extremely good news for the state's employment picture and overall economy.

Health care jobs have grown in importance in Massachusetts.

- Employment in health services has increased substantially over time and accounts for an increasing percentage of nonfarm employment (see Chart 1). Increases have occurred in each of the three major categories: medical offices outside of hospitals, hospitals, and nursing and resident care facilities.
- The share of employment in health services in Massachusetts is slightly above the regional average and well above the national average. As of the first half of this year, employment in health services was 11.7 percent in Massachusetts, compared with 11.5 percent for all of New England and 9.2 percent nationally. Hospital employment was the highest in New England, reflecting the state's premier position as a national center for teaching hospitals.

House prices have continued to rise rapidly in Massachusetts.

- Since 1984, house prices in Massachusetts have increased much more rapidly than per capita personal income in the state (see Chart 2). Increases in house prices through second quarter 2005 averaged 7.4 percent per year, compared with increases in per capita income that only averaged 5.2 percent. Declining mortgage rates



contributed to higher home prices, as the 30-year conventional rate ranged from a high of more than 13 percent in 1984 to a low of 5.5 percent during 2003.

- Over the four quarters ended in second quarter 2005, house prices rose by 11.8 percent in Massachusetts. House prices in the region rose by 13.0 percent, while nationally the increase was 13.4 percent. These increases—in the state, region, and nation—have been very impressive but are unlikely to be sustained given the slower rate of per capita income growth and the upward trend in interest rates.

The composition of Massachusetts exports is changing rapidly.

- Massachusetts exports had been growing rapidly, with an approximate 30 percent aggregate increase in exports during 2003 and 2004 (see Chart 3). However, in 2005, the state's top export sector, computer and electronic products, fell off sharply, leaving total export growth flat.
- Exports of electronic products declined in five of the last six quarters, in distinct contrast to the United States as a whole, which saw modest increases in these exports. In Massachusetts, the share of total exports attributable to electronic products has ranged from a high of 50 percent in early 2001 to 31 percent now.
- Chemicals, which includes pharmaceutical and biotech products, is now the state's second most important export sector. In 2001, chemicals were only 8 percent of Massachusetts exports; today, this sector accounts for 26 percent of total exports. Until this year, this sector had been growing rapidly enough to offset most of the declines in electronics. While now growing at 13 percent, year over year, chemicals grew at 40 percent or higher for 8 out of 11 quarters from mid-2002 to 2004.

Community institutions in Massachusetts remain profitable, but mortgage lenders see lower earnings.

- Massachusetts community institutions¹ remained profitable through the second quarter of 2005. Notably, community institutions with concentrations in mortgage lending (mortgage specialists²) continued to report lower earnings than non-mortgage community institutions (see Chart 4). For these mortgage specialists, NIMs were steady as the small increases in funding costs were offset by slight increases in asset yields. These institutions also reported low provision expenses that helped their bottom line.

¹Insured institutions with assets of less than \$1 billion, excluding institutions less than three years old and specialty institutions.

²Insured institutions with assets of less than \$1 billion with mortgage related assets greater than 50 percent of total assets.

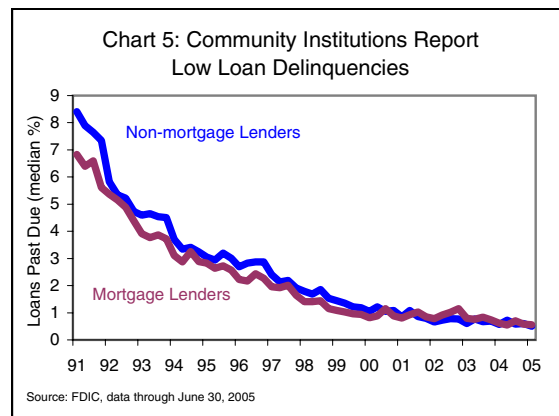
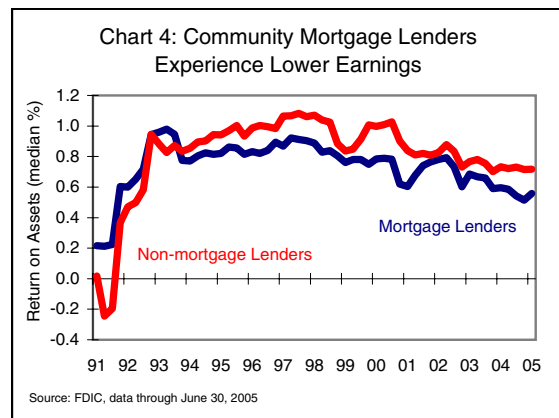
- The non-mortgage institutions reported improved net interest income and lower expenses, but they experienced an increase in provision expenses in the last year due to higher concentrations of construction and development and commercial loans.

Massachusetts community institutions report low loan delinquencies.

- Loan quality has remained strong since the New England economy began to recover in the early 1990s. The median delinquent loan rate for community mortgage lenders and other community institutions was below 1 percent as of June 30, 2005 (see Chart 5).

The hurricanes could increase energy costs and affect consumer spending.

- The direct effects from Hurricanes Katrina and Rita on Massachusetts' economy were slight, but higher energy costs occasioned by the storms could be felt for some time. New England already has the highest residential cost per kilowatt hour of electricity in the country. This past year New England was the coldest region in the United States. Even before the hurricanes, a sharp increase in heating costs previously forecast for this year could reduce consumer purchases.



Massachusetts at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.7%	1.0%	-0.2%	-0.1%	-1.9%
Manufacturing (10%)	-0.6%	0.0%	-3.9%	-3.2%	-7.0%
Other (non-manufacturing) Goods-Producing (4%)	2.5%	5.2%	1.3%	1.2%	-2.7%
Private Service-Producing (73%)	0.9%	1.1%	0.4%	0.4%	-1.0%
Government (13%)	-0.2%	-0.2%	-1.2%	-1.2%	-2.6%
Unemployment Rate (% of labor force)	4.7	4.9	5.2	5.1	5.8

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.3%	5.6%	6.7%	5.8%	2.2%
Single-Family Home Permits	-3.1%	-3.9%	15.6%	9.9%	-5.7%
Multifamily Building Permits	48.0%	106.8%	34.2%	23.2%	57.9%
Existing Home Sales	3.3%	11.1%	10.1%	19.8%	2.1%
Home Price Index	11.8%	11.9%	10.6%	11.5%	9.5%
Bankruptcy Filings per 1000 people (quarterly annualized level)	3.76	2.86	3.07	2.84	3.02

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	195	198	203	200	209
Total Assets (in millions)	230,672	223,820	226,830	224,189	214,167
New Institutions (# < 3 years)	0	1	2	1	2
Subchapter S Institutions	2	2	1	1	0

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.50	0.57	0.58	0.60	0.70
ALLL/Total Loans (median %)	0.92	0.93	0.96	0.91	1.02
ALLL/Noncurrent Loans (median multiple)	6.10	5.89	4.43	5.17	4.27
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.00

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.37	9.36	9.26	9.18	9.21
Return on Assets (median %)	0.63	0.65	0.68	0.69	0.76
Pretax Return on Assets (median %)	0.97	0.98	1.04	1.06	1.17
Net Interest Margin (median %)	3.49	3.49	3.39	3.50	3.54
Yield on Earning Assets (median %)	5.26	5.12	4.96	5.02	5.29
Cost of Funding Earning Assets (median %)	1.80	1.64	1.54	1.56	1.82
Provisions to Avg. Assets (median %)	0.03	0.03	0.02	0.03	0.03
Noninterest Income to Avg. Assets (median %)	0.41	0.38	0.40	0.41	0.49
Overhead to Avg. Assets (median %)	2.68	2.66	2.68	2.68	2.65

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	66.2	65.4	62.3	64.5	61.0
Noncore Funding to Assets (median %)	22.3	21.0	18.9	20.4	18.6
Long-term Assets to Assets (median %, call filers)	29.7	31.5	30.5	28.8	31.6
Brokered Deposits (number of institutions)	31	29	24	25	22
Brokered Deposits to Assets (median % for those above)	1.9	2.2	2.2	2.2	2.7

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	21.6	20.6	20.5	20.9	19.4
Commercial Real Estate	159.5	150.7	151.6	154.9	150.9
Construction & Development	32.0	30.9	28.7	29.9	28.1
Multifamily Residential Real Estate	15.2	14.8	13.4	14.5	10.9
Nonresidential Real Estate	87.3	90.0	84.2	86.4	83.6
Residential Real Estate	419.7	411.8	386.8	398.7	397.5
Consumer	6.6	6.9	7.4	6.9	8.6
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Boston-Cambridge-Quincy, MA-NH	160	141,784	< \$250 million	89 (45.6%)
Springfield, MA	24	9,973	\$250 million to \$1 billion	86 (44.1%)
Worcester, MA	39	9,919	\$1 billion to \$10 billion	17 (8.7%)
Barnstable Town, MA	12	5,652	> \$10 billion	3 (1.5%)
Pittsfield, MA	13	2,609		